

Report of the auditor-general to the North West provincial legislature and the council on the Kagisano Molopo Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Kagisano Molopo Local Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of the accounting records and fixed asset registers that does not support this balance and movements for the current and prior year. I was unable to confirm these assets by alternative means. In addition, in the prior year the municipality incorrectly classified assets that meets the criteria for investment property in terms of GRAP 16, *Investment property* as property, plant and equipment and incorrectly calculated the depreciation. This resulted in property, plant and equipment being understated by R7 910 879, the depreciation expense being overstated by R10 370 144 and investment property being understated by R2 459 265. Consequently, I was unable to determine whether any further adjustments to property, plant and equipment of R450 691 129 (2017: R448 119 409) as presented in the statement of financial position and disclosed in note 3 to the financial statements, depreciation and amortisation of R19 639 810 (2017: R20 131 334) as disclosed in note 24, the impairment loss of R1 186 507 (2017: R954 814) as disclosed in note 25 or the loss on disposal of assets and liabilities of R216 125 (2017: R450 389) presented in the statement of financial performance was necessary.

Investment property

4. The municipality incorrectly included assets as investment property while it does not meet the requirements of GRAP 16, *Investment property* through adjustment in the fair value valuation. Consequently, investment property as presented in the statement of financial position and disclosed in note 2 is overstated by R2 400 000 and fair value adjustment presented in the statement of financial performance and note 30 are overstated with the same amount.



Irregular expenditure

5. Section 125 of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMFA) requires the disclosure of irregular expenditure incurred. The municipality incurred expenses of R33 640 804 in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. In addition, I was unable to obtain sufficient audit evidence for payments included in irregular expenditure disclosed for the current and previous year. I was unable to confirm this irregular expenditure by alternative means. Furthermore, an adjustment of R26 075 834 relating to 2016 was incorrectly disclosed as a prior period error against the corresponding figure for 2017. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R387 806 722 (2017: R296 680 732) as disclosed in note 42 to the financial statements was necessary.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for other creditors included in payables from exchange transactions due to a lack of accounting records to support this balance. In addition, trade payables included in payables from exchange transaction was understated by R1 262 905 and receivables from non-exchange transactions was understated by the same amount due to incorrect classification of account balances. I was unable to confirm these payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to payables from exchange transactions of R18 962 598 as disclosed in note 13 to the financial statements was necessary.

Prior period errors

7. I was unable to obtain sufficient appropriate audit evidence for adjustments to the accumulated surplus in the statement of changes in net assets as a result of the prior period errors disclosed in note 37 and in the statement of changes in net assets. I was unable to confirm these adjustments and disclosure for prior period errors that relates to property rates, debt impairment, property, plant and equipment, receivables from non-exchange transactions and payables from exchange transactions. Consequently, I was unable to determine whether any adjustments relating to the accumulated surplus of R489 555 917 as disclosed in the statement of changes in net assets or the disclosure relating to prior period errors in note 37 to the financial statements were necessary.

Unspent conditional grants

8. The municipality did not correctly recognise revenue as required by GRAP 23, *Revenue from non-exchange transactions* as expenditure that was not in line with the conditions of the municipal infrastructure grants budget was utilised against this grant. As a result, unspent conditional grants in note 11 was understated by R8 612 839 and revenue from government grants and subsidies in note 20 was overstated by R8 612 839. Additionally, the current year receipts and conditions met – transferred to revenue items for the municipal infrastructure grant for the prior year as disclosed in note 20 was both understated by R28 697 000 while the summary breakdown of conditional grants disclosed in the note 20 are overstated by R103 705 436 (2017: R99 212 000).

Finance lease obligation

9. The municipality did not correctly record a finance lease obligation as required by GRAP 13, *Leases* as a lease in the prior year did not meet the requirements to be classified as a finance lease. Consequently, financial lease obligations was overstated by R5 488 172, property, plant and equipment overstated by R9 588 288, VAT receivable overstated by R666 465, interest paid overstated by R660 410 and other non-exchange receivables understated by R5 426 938. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

Comments

10. I was unable to obtain sufficient appropriate audit evidence for commitments due to a lack of appropriate accounting records for the disclosed commitments. In addition, commitments were overstated by R5 976 437 due to a completed contract not removed from the commitment balance. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustment relating to commitments of R99 795 511 (2017: R125 112 321) as disclosed in note 35 to the financial statements was necessary.

Contingencies

11. The municipality incorrectly disclosed a contingent liability of R1 519 264 and a contingent asset of R5 426 934 in the corresponding figures that did not meet the definitions of a contingent liability and assets respectively as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*. Consequently, the corresponding figure for contingent liabilities was overstated by R1 519 264 and the corresponding figure for contingent assets was overstated by R5 426 934 as disclosed in note 34 to the financial statements.

Property rates

12. The municipality incorrectly disclosed income foregone separately and inconsistently with the prior year in contravention with the requirements of IGRAP 1, *applying the probability test in initial recognition of revenue and GRAP 23, Revenue from non-exchange transactions*. Consequently, income foregone and state property rates received included in note 18 are both overstated by R23 691 043.

Repairs and maintenance

13. The municipality did not separately disclose in the notes to the financial statements repairs and maintenance, for each major class of property, plant of equipment as required by GRAP 17, *Property, plant and equipment* due to the state of the accounting records on these assets categories. Consequently, repairs and maintenance disclosure are understated by R3 827 035 (2017: R2 577 766) that presents the different classes of repairs and maintenance for property, plant and equipment.

Debt impairment

14. The municipality did not accurately disclose the movement of debt impairment in the statement of financial performance as required by GRAP 1, *Presentation of financial statements* as the debt impairment in note 27 did not correspond to the movement in note 6 and 8 by R2 741 278 as impairment was incorrectly disclosed as contract services. Consequently, debt impairment was overstated by R2 741 278 and contract services was understated by R2 741 278. In addition, debt impairment in the current year are overstated by R300 000 and receivables from non-exchange are understated by the same amount while in the prior year note 27 is understated by R2 042 441.

Receivables from non-exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence for other receivables from non-exchange revenue and prepayments included in receivables from non-exchange transactions, due to the state of the accounting records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange transactions of R6 439 893 as disclosed in note 6 to the financial statements was necessary.

Statement of comparison of budget and actual amounts

16. I was unable to obtain sufficient appropriate audit evidence for the variances in the statement of comparison of budget and actual amounts and the reasons for these variances disclosed in note 44 to the financial statements as the budget was not compiled on a comparable basis and

reasons for differences between approved and final budget amounts was not included as required by GRAP 24, *Presentation of comparison of budget and actual amounts*. I was unable to confirm these budget variances and reasons by alternative means. Consequently, I was unable to determine whether any adjustments relating to the statement of comparison of budget and actual amounts and reasons for budget variances as disclosed in note 44 to the financial statements were necessary.

Cash flow statement

17. The municipality did not correctly present cashflows in the financial statements for the comparative year as required by GRAP 2, *Cash flow statements*. This resulted in receipts and payments included in net cash flows from operating activities being overstated by R7 271 246 and net cash flows from investing activities was overstated by R2 098 544.

Financial instruments

18. The municipality did not correctly disclose the carrying amounts for each category of financial instruments as either fair value, amortised cost or at cost as required by GRAP 104, *Financial instruments* as all carrying amounts were classified as at cost. Receivables from exchange and non-exchange transactions, payables from exchange transactions, finance leases obligations and cash and cash equivalents should have been classified as held at amortised cost in note 33 to the financial statements. Additionally, finance lease obligations of R1 336 508 (2017: R7 931 000) was not disclosed as financial instruments and unspent conditional grants of R15 213 024 (2017: R787 145) did not meet the criteria for a financial instrument.

Related parties

19. The municipality did not disclose all related parties as required by GRAP 20, *Related party disclosures* due to override of internal controls over the preparation of financial statements. Consequently, related parties transactions as disclosed in note 36 to the financial statements was understated by R75 445.

Going concern

20. The municipality did not disclose in note 39 to the financial statements, events and conditions which indicate that a material uncertainty exist on its ability to continue as a going concern. The municipality incurred a net loss of R16 820 094 during the year ended 30 June 2018 and as of the reporting date, the municipalities' current liabilities exceeded its current assets by R6 599 110.

Emphasis of matters

21. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised and fruitless and wasteful expenditure

22. As disclosed in the note 40 to the financial statements, unauthorised expenditure of R24 996 067 was incurred in the current year and the unauthorised expenditure of R1 18 756 476 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.

23. As disclosed in the note 41 to the financial statements, fruitless and wasteful expenditure of R64 791 was incurred in the current year and the fruitless and wasteful expenditure of R1 919 372 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Other matter

24. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

25. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

26. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

27. In preparing the financial statements, the accounting officer is responsible for assessing the municipalities' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

28. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

29. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

30. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

31. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

32. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as

Planned strategic objectives per IDP	Reported strategic objectives per APR
Ensure that PMS Reports are submitted on time and reviews conducted	Ensure that PMS Reports are submitted on time and reviews on time
Eradicate backlogs in order to improve access to services	To facilitate the provision of houses
Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	To facilitate the provision of potable water
Eradicate backlogs in order to improve access to services	To Facilitate the Provision of Electricity
Eradicate backlogs in order to improve access to services	To Facilitate the Provision of Sanitation
Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	To provide public lighting to communities
Eradicate backlogs in order to improve access to recreational facilities	To provide sports facilities in various villages
Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	To develop and maintain parks

35. The strategic objectives approved in the integrated development plan (IDP) was not consistent with the objectives reported in the annual performance report (APR) for the following objectives:

Various strategic objectives

Key performance area 2: Basic services and infrastructure development

33. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

34. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Objectives	Pages in the annual performance report
Key performance area 2: Basic services and infrastructure development	x – x
Key performance area 3: Local economic development and community services	x – x

defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

Indicator Description	Reported achievement	Audited Value
Timous submission of PMS quarterly Reports to the office of the Municipal Manager within 15 Days after the end of each Quarter	4	3
Number of Thusong service centre constructed at Piet Plessis (Ward 2)	1	0

37. The reported achievements in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Various indicators

Planned indicator per IDP	Reported indicator per APR
Timous submission of 2017/2018 Mid-Term Report to the office of the Municipal Manager	Timous submission of 2017/2018 Mid-Term Report to National, Provincial Treasury and Department of Local Government and Human Settlement
Timous submission of 2017/2018 Mid-Term Report to the office of the Municipal Manager	Timous submission of 2016/2017 Annual Performance Report to the Office of the Auditor General of South Africa
Timous tabling of oversight Report on 2016/2017 Annual Report to Council for approval.	Timous submission of 2016/2017 Oversight Report to Council for approval
Number of kilometres of access road constructed at Tseoge (Ward 11)	Number of access road constructed at Tseoge (Ward 11).

36. The indicators approved in the IDP was not consistent with the indicators reported in the annual performance report for the following indicators:

Variance indicators

Planned strategic objectives per IDP	Reported strategic objectives per APR
Eradicate backlogs in order to improve access to services	Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance
Fencing of graveyards	Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance
Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	To ensure access to information



Responses to the internal auditor's findings within 30 days after receipt of the report

38. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of this indicator. This was due to limitations placed on the scope of my work as sufficient appropriate evidence was not provided. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of four (4) as reported in the annual performance report.

Key performance area 3: Local economic development and community services

Various strategic objectives

39. The strategic objectives approved in the IDP was not consistent with the objectives reported in the annual performance report for the following objectives

Planned strategic objectives per IDP	Reported strategic objectives per APR
Ensure that PMS Reports are submitted on time and reviews conducted	To ensure that PMS Reports are submitted and reviewed on time
Create an environment that promotes development of local economy and facilitate job creation	To promote LED and agriculture
To ensure access to information	To ensure access to government services and information
Create an environment that promotes development of local economy and facilitate job creation	To create jobs

Various indicators

40. The indicators approved in the IDP was not consistent with the indicators reported in the annual performance report for the following indicators:

Planned indicator per IDP	Reported indicator per APR
Timeous submission of 2017/2018 Mid-Term Report to the office of the Municipal Manager	Timeous submission of 2017/2018 Mid-Term Report to National, Provincial Treasury and Dpt. Of Local Government and Human Settlement
Timeous submission of 2016/2017 Annual Performance Report to the office of the Municipal Manager	Timeous submission of 2016/2017 Annual Performance Report to the Office of the Auditor General of South Africa
Timeous tabling of the oversight Report on 2016/2017 Annual Report to Council for approval	Timeous submission of 2016/2017 Oversight Report to Council for approval

Various indicators

41. The reported achievements in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows



45. The indicator approved in the IDP was "number of jobs created and cleaning monitored through EPWP per plan" and the target approved was 259. However, the indicator reported in the annual performance report was "number of jobs created through EPWP" and target was changed to 250 without the necessary approval. Additionally, the achievement for target of the number of jobs created through EPWP in the annual performance report was 259. However, the supporting evidence provided did not agree to the reporting achievement and indicated an achievement of 140.

Number of Jobs Created through EPWP

44. The indicator approved in the IDP was "% reported disaster victims provided with relief material within 30 days". However, the indicator reported in the annual performance report was "% reported disaster victims provided with relief material". Additionally, the achievement for target of the % relief material provided to reported disaster victims reported in the annual performance report was 100%. However, the supporting evidence provided did not agree to the reporting achievement and indicated an achievement of 44%.

% relief material provided to reported disaster victims

43. The target approved for this indicator in the IDP was 4. However, the target was changed to 2 without the necessary approval.

Number of Disaster Awareness Campaigns Conducted

Indicator description	Reported achievement	Responses to the Internal Auditor's Findings within 30 days after receipt of the report	Number of Library awareness campaigns / program held for Ganyesa, Morokweng, Tosca, Tlaskgameneng, Bray & Vorstershoop
		4	120

42. I was unable to obtain sufficient appropriate audit evidence for the reported achievements for the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Various indicators

Indicator description	Reported achievement	Audited value
Timous submission of PMS quarterly Reports to the office of the Municipal Manager within 15 Days after the end of each Quarter	4	3
Number of SMM's supported per plan	2	0
Number of Goat massification programs implemented per project implement action plan	8	9

Other matter

46. I draw attention to the matter below.

Achievement of planned targets

47. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 35 to 45 of this report.

Report on audit of compliance with legislation

Introduction and scope

48. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

49. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

50. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Conditional grants

51. I was unable to obtain sufficient audit evidence that the Municipal Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.

Revenue management

52. Accounts for municipal tax were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Procurement and contract management

53. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as contracts and quotations were not available for audit.

54. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

55. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by inviting competitive bids, as required by SCM regulations 19(a). Similar non-compliance was also reported in the prior year.

56. Sufficient appropriate audit evidence could not be obtained that bid specifications was unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a). Similar non-compliance was also reported in the prior year.

57. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
58. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
59. Some of the contracts were awarded through a competitive bidding processes that were not adjudicated by the bid adjudication committee. Similar non-compliance was also reported in the prior year.
60. Sufficient appropriate audit evidence could not be obtained that bid adjudication committees were always composed in accordance with SCM regulation 29(2).
61. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
62. Sufficient appropriate audit evidence could not be obtained to confirm whether councillors of the municipality participated in committees evaluating or approving tenders, quotations or attended meetings of committees evaluating, approving tenders and quotations, in contravention of section 117 of the MFMA.
63. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
64. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.
65. Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM regulation 38(1), because some of the contracts were awarded to providers who during the last five years, failed to perform satisfactorily on a previous contract with the municipality or municipal entity or other organ of state and abused the SCM system of the municipality.
66. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.
67. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
68. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act. Preferential Procurement Regulations.
69. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
70. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by regulation 8(2) of the 2017 Preferential Procurement Regulations.



84. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
83. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Assets management

82. Reasonable steps were not taken to prevent unauthorised expenditure of R24 996 067, as disclosed in note 40 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of various votes.
81. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R1 984 163, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by interest on supplier accounts.
80. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain regulations.
79. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval and authorisation of funds, as required by section 65(2)(a).
78. Payments were made from the municipality's bank account without the approval of the chief financial officer as required by section 11(1) of the MFMA.
77. I was unable to obtain sufficient audit evidence that money owed by the municipality had always been paid within 30 days as required by section 65(2)(e) of the MFMA.

Expenditure management

76. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for councillors and staff members issued in terms of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).
75. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
74. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
73. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
72. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
71. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 Preferential Procurement Regulations.

- Management's internal controls and processes over the preparation and presentation of financial statements and performance information were not adequate to ensure that the controls.
 - The leadership did not adequately exercise appropriate oversight over financial, performance information and compliance monitoring as well as related internal controls. Policies and procedures did not adequately guide financial, performance information and compliance activities. Furthermore, material misstatements were identified in the financial statements and performance reports which were not prevented by internal policies and controls.
93. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

Internal control deficiencies

92. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
91. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
90. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
89. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

Other information

88. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Human resource management

87. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Consequences management

86. An effective system of internal control for liabilities was not in place for other creditors as required by section 63(2)(c) of the MFMA.
85. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

Liability management



Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA



30 November 2018

Potchefstroom

Auditor General

95. An independent firm is performing an investigation, commissioned by Council, into alleged financial misconduct by senior officials on supply chain irregularities, which covers the financial period 2017-18 financial year. At the date of this report the disciplinary hearings for the officials implicated was not yet completed.
96. Various investigations instituted by the municipal manager have not yet been completed on allegations into fraudulent practices and activities by suppliers of the municipality. At the date of this report, these investigations was still ongoing.

Investigations

94. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipalities' financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Other reports

- The risks identified during the risk assessment process relating to financial reporting, performance information and compliance with laws and regulations were not adequately monitored by management resulting in weaknesses in the internal control environment. The recommendations from the audit committee and internal audit did not yield the required results as material misstatements and findings were identified in the financial statements and the performance report submitted for audit as well as material non-compliance with legislation.
- financial statements and these reports were free from material misstatements. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented. Policies and procedures have not always adequately guided financial activities as well as action plans to address prior year audit findings.